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2016

Ahonen , P P 2016 , ' Holdings of national and local governments in companies in Finland: Persistence and change in the longer term ' , Annals of Public and Cooperative Economics , vol. 82 , no. 2 , pp. 257-274 . <https://doi.org/10.1111/apce.12102>

<http://hdl.handle.net/10138/232558>

<https://doi.org/10.1111/apce.12102>

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HOLDINGS OF NATIONAL AND LOCAL GOVERNMENTS IN COMPANIES IN FINLAND: PERSISTENCE AND CHANGE IN THE LONGER TERM

Pertti Ahonen

Accepted on 27 April 2015 for publication in *Annals of Public and Cooperative Economics*

ABSTRACT: *Applying an approach of neo-institutional research, this article examines the history of company holdings of the national government and local governments in Finland in the longer term. The article examines the genealogy of the institutional forms of these holdings, the diffusion, adoption and adaptation of these forms, and the political legitimacy of new forms and the political de-legitimation of certain earlier forms. For theory, the results indicate that the individual tailoring of institutional forms offers flexibility but increases complexity. For practice, the results suggest that the company form may too easily marginalize alternative institutional forms such as co-operatives, associations, and foundations.*

Keywords: institutional void, government holdings, government ownership, local government, companies, privatization, strategic ownership, institutional forms, co-operatives, associations

JEL classification: B52, D71, H82, J54, L32, L33, L38, N44, O14, P13, Z18

1 Approach, methodology, and material

Despite waves of global privatization, governments continue to have substantial holdings in companies (Milward 2011, Musacchio & Lazzarini 2012, Wettenthal and Thynne 2011, Florio 2014). This article examines company holdings of the national government and local governments in Finland in the longer term. Finland's diversified institutional palette of business activities by governments, the spectrum of the institutional forms of these activities and the many changes in these forms recommend this country for study. The article also pays attention to European Union influences upon institutional forms and alternative institutional forms to the company form.

Methodologically, this article represents historically oriented institutional analysis (Rowlinson

and Hassard 2013) utilizing both secondary and primary sources. The article derives its study questions from historically oriented neo-institutional research (Suddaby et al. 2013), which examines the diffusion, adoption, adaptation and actual application of institutional forms (Strang and Macy 2001; Kil and Strang 2006). The first two research questions are:

- (1) How do institutional forms of company holdings of governments diffuse from country to country and within countries?
- (2) How are institutional forms of company holdings of governments adopted and adapted for their actual application?

The neo-institutional research that this article utilizes has turned away from examining the adoption of institutional forms on the sole grounds of performance and related criteria such as efficiency, profitability, shareholder value and return on investment. This neo-institutional research also examines the introduction of new institutional forms on grounds that they have become politically, ideologically or morally legitimate than their predecessor forms (Tolbert and Zucker 1983; Meyer and Höllerer 2010; Fink 2011). The last study question is:

- (3) How does the enhancement of legitimacy rather than performance by means of new institutional forms advance the substitution of new forms for government holdings in companies for the predecessor forms?

This article delivers a longer-term narrative on the Finnish national government holdings in companies and a shorter-term narrative on the company holdings of local governments. The article is focused on the approximately one hundred years that have passed since Finland became independent in 1917, but also examines antecedents to government holdings evolved between 1809 and 1917. The periodization of the examination reflects discontinuities between the sub-periods of the entire study period. However, some of the developments that this article has to examine transcend the boundaries between these sub-periods. Besides what has actually happened and won predominance, this article considers counterfactuals of institutional forms of government business holdings, meaning historical alternatives that have either narrowly failed to come true or have been short-lived or marginal (Zeitlin 2007). Besides the foremost Finnish national government company holdings in the longer term, the article also examines national government governance concerning these holdings, the local government company holdings, and alternative institutional forms to the

dominant company form.

2 Introduction to the institutional forms of national and local government business holdings in Finland

It is first necessary to insert the company holdings of the Finnish national government and local governments into a broader context of institutional forms (see Table 1). The institutional forms of the national government holdings were imprecise until 1931, since when the national government either maintained public enterprises organized in a specific institutional form (form I in the table) or organized its holdings into the institutional form of the company (forms IV and V). Form II has been rare rather than common, and form III introduced in the 1980s to replace the earlier form I in the national government and in 2007 in local government is dying out.

TABLE 1 ABOUT HERE

Ever since 1931, the great majority of the Finnish government holdings in companies have been comprised of full, majority or minority equity ownership without any qualifications whatsoever made to the generic Company Act applied in all companies irrespective of ownership (see the general variant of institutional form V in Table 1). However, ever since the same year, for a minority of the government holdings the Company Act has been qualified with parliament acts of public interest legislation (form IV). The municipal analogy to the public interest legislation in national government, evolved during the recent decades, utilizes the possibility offered by Company Act to pass company by-laws at the shareholders' meeting that the company shall not pay and becomes an equivalent to a non-profit organization (Table 1, the non-profit variant of form V).

No general legislation on national or local government company holdings has ever been passed in Finland, and therefore such everyday expressions as 'government company' or 'local government company' are too imprecise to use in a research article. In 1947 the State Audit Act extended the State Audit Office auditing to national government direct or indirect majority holdings in companies (Puumalainen 1973, Ahonen 1987), but the auditing excluded all minority holdings. Since the 1990s the Finnish Parliament has legislated limits to the allowable minimum of national government holdings in some companies (for the present legislation see LVYO 2007), but no minima have been defined for most of these holdings. Moreover, such limits have no bearing whatsoever relating to the legal forms of the companies concerned but merely express the

parliamentary political opinion at the time of defining each limit. In principle, this article examines all sole, majority or minority holdings of the Finnish national government and the country's local government in companies.

3 Antecedents of national government company holdings from 1809 to 1918

In 1809 Finland ceased being an inseparable part of Sweden and became a constitutional grand duchy under Russia. In 1811 the national government that had been founded in Finland two years earlier founded the first organization that eventually became a company in which the government has holdings. However, this organization, a postal services agency, was not the first one by far in which the government later had had holdings, as it became a company only as late as in 1994. Other early national government agencies whose follower institutions have comprised companies with government holdings evolved in road and water construction (1816; the predecessor of Destia plc founded in 2008), the railways (1862; the predecessor of VR Group plc founded in 1995), the post savings bank (1887; the predecessor of a company founded in 1988), and the Outokumpu mining enterprise (1910; company in 1910–1921 and again since 1932). (Ahonen 1987, Junka 2010, Table 2.)

TABLE 2 ABOUT HERE

In 1860, private investors founded the first antecedent of Finland's 1990s to early 2010s national champion company Nokia plc. Nokia has important origins in military electrical assembly workshops founded by the Finnish government in the 1920s as early predecessors of the telecommunications equipment company Televa Ltd that the government established in 1974 but sold to Nokia in steps between 1981 and 1987 (Häikiö 2001, Table 2). Once Finland became independent in 1917, the Finnish government acquired holdings of previous Russian infrastructures in Finland including international and long-distance telephone lines and telegraph lines. These infrastructures were first governed in the institutional form of a government agency and ultimately from 1994 to 2002 in the form of a company, which merged in 2002 with another company whose majority holdings are in Swedish hands (Table 2). Moreover, in 1918 the Finnish government acquired majority holdings in a company whose inheritor company merged in 1998 with a Swedish company to comprise one of the largest present-day global companies in the forest industries, the Swedish-Finnish Stora Enso plc (Ahonen 1987; Table 2).

4 Evolving forms of national government holdings in companies from 1918 to World War II

In the early 1920s the Finnish government founded the embryo of Kemira plc for fertilizer and explosives production and the Veitsiluoto enterprise to tap state forest wealth in northern Finland. At the same time, the government started the construction of a hydroelectric power station for the Imatran Voima enterprise, which was the first predecessor of the present-day energy company Fortum plc. Moreover, since the 1920s the government established military industrial works, some of which were ultimately merged into the present-day Patria plc. (Ahonen 1987, Junka 2010, Table 3.)

TABLE 3 ABOUT HERE

The ambiguity of the institutional forms of the national government business holdings, the effects of the global economic depression and the pressures of national vested interests catalyzed the adoption of new institutional forms for these holdings. In 1931–1932 the government used its property in its chemicals enterprise and its Veitsiluoto, Imatra and Outokumpu enterprises as its contributions in kind in order to establish four companies organized according to the provisions of the generic Company Act. This transformation took place by means of adapting the institutional models of Weimar Germany, which was the foremost global metropolis country that Finland emulated those days (Puumalainen 1973, Ahonen 1987, Table 3). Contributing factors included the fact that German comprised the foremost international language of academic learning in Finland in those days, that Germany was the foremost source of general let alone technological imports to Finland, and that Germany was the only large Western country which easily accessible from Finland. Since those days all Finnish government holdings in companies are excluded from the government budget and the government financial management, and these holdings are also excluded in all official statistics from the public sector whose apparent size is therefore reduced (Ahonen 1987).

The Finnish government introduced early on adaptations of the institutional form of the company. After the repeal of prohibition in 1932, the government established the Alko Ltd alcohol monopoly company. In 1934, a targeted issue of stocks made the government the foremost owner in the broadcasting company Yleisradio Ltd, and the government also founded the betting monopoly company Veikkaus Ltd, which started its operations in 1940. In all three companies parliamentary public interest legislation supplements and qualifies the provisions of the Company Act. The

government assigned the governance duties of each company with government holdings – from its chemicals company to its betting company – to a specific ministry, and each ministry delegated the actual representation of the governmental ownership interest in the company to a designated civil servant. As a separate measure, in 1934 a targeted issue of stocks made the government the majority shareholder in southern Finland's private-sector long-distance telephone company, which the government merged with its post and telecommunications agency making an end to private-sector long-distance and international telephony in the country for more than forty years. (Ahonen 1987, Table 3.)

5 Forms of national government holdings in companies from World War Two to the 1980s

In 1945 the Finnish government established the antecedent enterprise of Vapo Ltd, the peat and wood pellet producer, and in the following year the government re-organized many of its holdings in metal industries into Valmet, which had a fund organized outside the regular government budget as its foundation. The same year a targeted issue of stocks made the government the majority owner in the airline Aero Ltd, the predecessor of the present-day national airline Finnair Ltd. In 1947 the Finnish government founded Neste Ltd to import and store crude oil and oil products. Later the company expanded to oil tanker shipping and oil refining. In 1952 the government used its property invested in Valmet as its contribution in kind at the establishment of Valmet Ltd, and in 1960, the government created the iron and steel industry company Rautaruukki Ltd. (Puumalainen 1973, Ahonen 1987, Junka 2010, Table 4, for Finnair Ltd see Table 3.)

TABLE 4 ABOUT HERE

Since 1947 direct and indirect government majority holdings in companies are audited not only by auditors selected according to the provisions of the Company Act but also by auditors of the State Audit Office. Moreover, since World War Two besides the government, two affiliated organizations with full legal and financial independence acquired holdings in companies. Both organizations, the Bank of Finland and the Social Insurance Institution, are governed by deputies elected by Parliament. After the war, the practice continued that a ministry civil servant represented the owner's interest in each company in which the government had holdings, except for the broadcasting company Yleisradio Ltd. Since 1949, Parliament has elected the members of the executive board of this company in proportion to the parliamentary strength of each party. (Ahonen 1987, Table 4.)

Since the 1950s, many of the companies in which the Finnish government had holdings substantially expanded, diversified and internationalized by means of exports and foreign subsidiaries. Obligated by the Company Act the government had to allow some smaller companies with government holdings to go bankrupt, whereas the larger companies that had financial difficulties ultimately survived (Ahonen 1987). A special function evolved within the Ministry of Trade and Industry for the coordination of the government holdings in companies and for the preparation of government policies as concerns these holdings. However the practice evolved before World War Two also continued, so that the governance towards each company in which the government had holdings was assigned to a designated government ministry, from among which the Ministry of Trade and Industry was only one.

6 Privatizations of Finnish national government business holdings since the 1990s

The neo-institutionalism that this article applies requires attention not only to performance but also political legitimacy as a source of incentives to changes in the institutional forms of government holdings in companies. It could have been contingently otherwise, but the absence of performance problems to note in companies with Finnish government holdings and in the older type government public enterprises (see Table 1) suggest that we should look for reasons of political legitimacy-seeking by the Finnish government behind the privatizations that occurred since the 1990s. Chronologically, the first influences suggesting privatizations were comprised of ideological impulses flowing to Finland from the Anglo-American countries since the turn of the 1970s and the 1980s no less than to other market economies (Simmons et al. 2007, Fink 2010). The career managers of the companies in which the Finnish national government had holdings and in the the national government public enterprises also reaped success in persuading the political decision-makers to empower both types of government business holdings better to tap the unlimited opportunities that the globalizing markets appeared to offer (Ahonen 1987).

Domestic political changes further increased the attractiveness of the Anglo-American examples of privatization in Finland. The strengthening conviction in the virtues of unfettered market forces together with the Gorbachevian thaw in the Soviet Union catalyzed the return of the political right to government in 1987 after an interval of two decades. Towards the end of the 1987–1991 government coalition between the political right and the moderate political left of the Social Democrats and at the beginning of the 1991–1995 all-bourgeois government coalition, changes in

the comparative political legitimacy of alternative government strategies towards government holdings in companies spurred Finland to ride the global wave of privatizations of (Meklin and Ahonen 1998, Ranki 2012).

After a six-year preparation, the Finnish Parliament had legislated in 1987 a mild adaptation of the British institutional form of the public corporation by means of the new Public Enterprise Act (Ahonen 1987, see institutional form III in Table 1). This act and its successor acts of 2002 and 2010 have laid the foundation for approximately twenty special parliament acts on individual public enterprises organized in the new institutional form. However, the substantially increased political legitimacy of privatizing government property made that most enterprises organized into the new institutional form did not retain this form for long. In 1994 the government used its holdings in its post and telecommunications public enterprise as its contribution in kind at the establishment of Post and Telecommunications Ltd., which was in 1998 split into a postal company and a telecommunications company. In 2002 the government sold the majority of its holdings in the telecommunications company to Sweden at the creation of the Swedish-Finnish Telia Sonera plc. In 1995 the government used its holdings as another substantial contribution in kind at the establishment of the railway company VR Group Ltd. (See Table 2.)

In 1997 the Finnish government transformed its Post Bank enterprise, organized into a unique statutory institutional form without equivalents in the country, into Leonia Ltd, and sold its majority holdings in this company in 2001 to private-sector owners (Table 2). In 1997, the government merged several small defense industry companies, each earlier organized as older type public enterprises (on this institutional form see Table 1), into Patria Ltd (Ownership Steering 2015, Table 3). In 2008, the government used its holdings in its roads maintenance public enterprise as its contribution in kind at the establishment of Destia plc, and in 2014 sold all its Destia holdings to a private-sector company (Table 2). In 2015, the State Forests, one of the two last remaining new type public enterprises in 2014, and the State Technical Research Center, a government agency, became companies in which the government holds all stocks (Table 2, Table 4).

The increased political legitimacy of the privatization of government property influenced the holdings of the Finnish national government in companies even more than its public enterprises. In several larger companies, what ultimately advanced to moderate or fuller privatization started with the modest introduction of these companies on the Helsinki Stock Exchange in 1988–1989 motivated on the grounds of improved supply of equity. During 1991–2014, the government sold

off its majority holdings in altogether twenty-four major companies. Let us consider the foremost from among the privatization measures. In 1996 Veitsiluoto Ltd merged with Enso-Gutzeit plc to comprise Enso plc, which became part of the Swedish-Finnish Stora Enso plc in 1998. Moreover, in further six large companies the majority holdings moved from the government into private-sector hands, namely Outokumpu plc in 1994, Valmet plc in 1996, Rautaruukki plc in 1997, Enso plc in 1998, that part of the present-day Sampo Bank plc which had earlier been held by the government in 2000, and Kemira plc in 2005. In addition, the merger of the government computing company with a larger private-sector company created Tieto plc in 1999. On relinquishing its remaining Rautaruukki shares in 2011, the government became a minority owner in the Swedish SSAB plc. (Ranki 2012, Ownership Steering 2015, Table 2, Table 3, Table 4, Table 5.)

TABLE 5 ABOUT HERE

In the 1990s Finnish privatizations of national government holdings in companies neither derived from a strategy devised and implemented by a single government nor strategies of governments that had been predominantly bourgeois coalitions between the political right and center let alone comprised of the political right wing alone. In fact, few privatizations were completed during the all-bourgeois government of 1991–1995, but most were carried out during the two consecutive 1995–2003 governments with a Social Democratic Prime Minister heading coalitions that besides his party included the political right and the political left, whereas the political center was in opposition. This political background suggests quite a wide political consensus on the immediate privatization of the government's sole or majority holdings in companies. For some time it looked as if the Finnish government would sell all its holdings in companies as soon as possible and almost at any price (Meklin and Ahonen 1998), but soon the government introduced waiting times to sell only when its holdings had reached a high in the stock market. After the 1995–2003 political coalition was succeeded by two consecutive coalitions with the Prime Minister from the bourgeois political center, the Finnish policies of privatizations of government holdings in companies faded by and large, which also coincided with global abatement in the privatization activity of government holdings in companies. (Ranki 2012, Ownership Steering 2015.)

7 The institutional forms of governance towards national government business holdings since the 1990s

During the privatizations of national government public enterprises and national government

holdings in companies in Finland since the 1990s the institutional forms of the general governance towards these at holdings first stayed intact by and large. The Ministry of Trade and Industry retained the general coordination of the government holdings in companies, and the governance related to each company and each public enterprise was assigned to a designated government ministry. However, since 1991 Parliament has legislated itself the right to define a minimum allowable proportion for the government holdings in companies of Parliament's choosing.

In 2007, Parliament passed an act on government ownership in companies and the ownership steering of these companies (LVYO 2007). Parliament consent is needed to allow company holdings by others than the government in companies in which the government is the sole holder and for reductions in the government share of company holdings below one half in companies in which its share has been above 50 and below 100 per cent (LVYO 2007, art. 3, sect. 1). In the act, 'by government ownership steering is meant the use of voting power of the government in the shareholders' meeting and other measures with which the government in the capacity of a shareholder contributes to the governance and the operation principles of companies' (LVYO 2007, art. 2, sect. 2, translated for this article). The government, meaning all ministers in a plenary session, has unlimited discretion to define the contents of the ownership steering. According to the official web pages of the ownership steering function situated at the Prime Minister's Office, this function has to enhance the political objectives of each government as concerns the government holdings in companies (Ownership Steering 2015). According to the web pages indicated the ownership steering intends to ensure open, consistent and predictable government behavior as concerns its holdings in companies, responsible and knowledgeable membership in the company executive boards, professional and committed professional management of the companies, observation of the interest of the government and all other company owners and other stakeholders in the companies, and compliance with OECD corporate governance principles on transparent and open company decision-making and supervision in order to enhance shareholder value (OECD 2004).

Despite the government ownership steering the governance towards companies in which the government and other public sector institutions have holdings is dispersed rather than comprising a unitary system. In 2007, the ownership steering unit situated in the Prime Minister's Office was substituted for the earlier coordination function of the government holdings of the Ministry of Trade and Industry (Table 6). This unit directly governs government holdings in companies concerning which the government has declared a strategic ownership interest (Table 6, governance model A).

Adapting globally diffusing models that emphasize strategic government minority holdings in companies (Löyttyniemi 2011; Wettenhall and Thynne 2011, Inoue et al. 2013, Florio 2014), the government holding company Solidium Ltd manages government minority holdings in selected publicly traded companies on the principle of the sustainable maximization of shareholder value (governance model B). The institutional form of governance towards companies in which the government has holdings by designated ministries has also been retained, such as concerning companies in which public interest legislation supplements the provisions of the Company Act (governance model C, compare with institutional form IV in Table 1). The Social Security Institution retains holdings in companies (governance model D), and the pension funds have accumulated holdings that have grown into substantial proportions (governance model F). Table 6 also indicates the governance of Finnish local governments concerning their holdings in companies (governance model E).

TABLE 6 ABOUT HERE

The transfer of the governance of government minority holdings in companies to the holding company Solidium Ltd in 2007 intended to make an end to all politics as concerns these companies. However, the international business operations of some of these companies have continued to implicate the Finnish government both among national and foreign scholars and political activists (Myllylä and Takala 2011, Kröger 2012). Within Finland, the elevated management compensation in some of the companies in which the government has minority holdings in emulation of general global models (see, for instance, Shin 2012) has evoked criticism among some of those political decision-makers who originally introduced the compensation schemes (Ranki 2012). Moreover, public opinion often criticizes companies in which the government has minority holdings insofar as these companies shed workplaces at a more rapid pace than comparable companies in which the government has no holdings.

8 The expansion of local government holdings in companies

Finnish local governments had holdings in companies before, but these holdings have truly expanded only since the 1980s. In 2001, the local governments had 944 companies with 13,500 employees and a combined turnover of 2.1 bn euros, in 2010, 1,428 companies with 27,000 employees and a turnover of 5.8 bn, and in 2014, 1,853 companies with 21,300 employees and a turnover of 8,7 bn (Statistics Finland 2015). Moreover, according to data from 2010 there were 176

local government public enterprises (representing institutional form II of Table 1), which had a total 16,200 employees and a combined turnover of 5.6 bn.

The European Commission first banned the institutional form of the public enterprise of the Finnish national government (European Commission 2008) and next the adaptation of this form comprised of the institutional form of local government public enterprises introduced in a 2007 amendment to the Local Government Act (European Commission 2010, see Kuntalaki 1995). In both cases the Commission has put into question the satisfaction of the competitive neutrality principle in the operations of the enterprises (see Capobianco and Christiansen 2011). The historical alternatives (Zeitlin 2007) proposed in the 1980s (Ahonen 1987) for the comprehensive statutory tailoring of the institutional form of the company for the purposes of the Finnish national government and this country's local governments never came true. The 2013 amendment to the Finnish Local Government Act (Kuntalaki 1995) does not rule out transforming local government public enterprises into co-operatives, associations or foundations to satisfy the European Commission criteria of competitive neutrality, but the resilience of the institutional form of the company makes it improbable that the other forms will find many applications soon.

The European Commission ban on the institutional form of the public enterprises of Finnish local governments justifies the expectation of imminent privatizations during the latter half of the 2010 with the establishment of new companies in which these governments will have the sole or majority holdings. This suggests the emergence of new companies of energy generation, water supply and sanitation, and hospitals (see Statistics Finland 2014), whereas fewer changes in institutional forms in local government housing services and real estate management can be expected, as the company form had become common in these other functions before the Commission ban. However, the institutional form of the company is not immune to criticisms expounded from the viewpoint of the Nordic traditions of public sector transparency and openness (Erkkilä 2010) and deep-going democratic local self-government (Kröger 2012).

9 Conclusions and discussion

The answer of this article to its first research question on the diffusion of institutional forms of company holdings of governments pinpoints the direct or indirect foreign origins of many of the current and historical Finnish institutional forms. The application of the company form to organize business holdings of the Finnish government in 1931 derived from Weimar Germany, which was

the leading global metropolis that Finland amply emulated between the start of its independence in 1917 and the end of democracy in Germany in 1933 (for more on the global metropolitan orientations of Finland, see Kanerva and Palonen 1987). The several Finnish government acquisitions of majority holdings in companies by means of targeted stock issues since the early 1930s deployed models well entrenched in the Finnish private business world in those days after having arrived earlier in the country from abroad. It was also sufficient for Finland to follow examples of other countries to fill voids in the country's industrial structures since the 1920s by means of extending government business holdings, to internationalize companies in which the Finnish government had holdings by means of exports and establishing foreign subsidiaries since the 1950s, to privatize government holdings since the 1990s, and to maintain government strategic minority holdings in companies after the 1990s.

This article answers its second research question on the adoption and adaptation of institutional forms of government holdings in companies with evidence on the expansion of the company form since the 1930s and the adaptations made to this form since the same decade by means of public interest legislation that qualifies the provisions of the generic Company Act in selected companies. According to public interest legislation qualifying the Company Act, Parliament has nominated the executive board of the broadcasting company Yleisradio Ltd ever since 1949. As far as local government holdings in companies are concerned, the foremost adaptation of the Company Act is comprised of the possibility allowed in this act that the shareholders' meeting passes company by-laws that prohibit the company from distributing dividends and make the company into an equivalent of a non-profit organization.

The third research question asked about the search for political legitimacy rather than performance by means of changes in institutional forms of government business activities. As indicated above, Weimar Germany had much to recommend it in Finland at the beginning of the 1930s as a politically legitimate source for a new institutional form of government business holdings. The Anglophone world had replaced Germany decades before global waves of privatization billowed ashore in Finland in the 1990s. Important mediators of influences concerning government holdings of companies in Finland have included the OECD (Alasuutari and Rasimus 2009, OECD 2005, Capobianco and Christiansen 2011, Christiansen 2011), one of whose guideline publications has received an official standing in the Finnish governance of national government holdings in companies (OECD 2004). More lately, the European Commission bans on the Finnish national government and local government institutional forms of public enterprises have made these forms

illegitimate not only in the political but also the legal sense and contributed to further applications of the institutional form of the company.

From a theoretical point of view, the results of this article emphasize tensions between flexibility in selecting, maintaining and detailing institutional forms of government holdings in companies on the one hand, and governance challenges arising from this flexibility and the resulting high degrees of complexity on the other. The current governance of national government holdings of companies in Finland combines arrangements set up to ensure predictability of the government holdings in companies with exclusions, the governance of some these holding by the Prime Minister's Office with governance by the line ministries, and the direct governance of company holdings by a unit at the Prime Minister's Office with a holding company to govern other holdings. Moreover, the holding company arrangement has not succeeded to eliminate politics from the government minority holdings in companies. Last but not least, the Social Security Institution and the statutory pension funds add to the complex governance of the Finnish public sector holdings in companies.

The practical policy implications of this article emphasize the virtues of institutional forms introduced and maintained on pragmatic grounds as opposed to rigorous principles. Never arisen by way of nationalization, the history of the Finnish national government and local government holdings in companies is punctuated with pragmatic considerations at the time of their establishment or government acquisition. Partial or fuller privatizations have also been carried out on pragmatic rather than principled grounds, although not necessarily without contentious opposition. The more recent European Commission interventions examined in the article represent aberrations from the pragmatic mood towards adversary procedures that are not without problems if considered from the viewpoint of Nordic traditions of transparency, openness, and democratic local self-government. However, the results of this article also practically imply that limits to the complexity of institutional forms should be drawn somewhere.

The pragmatism of selecting institutional forms for national and local government holdings in companies in Finland may not have been deep enough in certain respects. For reasons examined in this article, the business holdings of the Finnish national government and local governments have been developing towards a monoculture of institutional forms derived from the Company Act either as such or supplemented with public interest legislation or company by-laws making the company into an equivalent to a non-profit organization. The Finnish Local Government Act as amended in 2013 does mention the possibility that the municipalities may ensure competitive neutrality not only

by means of turning their public enterprises into companies, but alternatively by means of such institutional forms as co-operatives, associations, or foundations. However, by the mid-2010s the actual applications of these alternatives were still practically nonexistent (Kallio and Kuoppakangas 2013).

This article suggests future research articles and comprehensive comparative studies on the holdings of federal, national, state and local government companies in Finland and in other countries. The closest comparators for Finland are the other Nordic countries Sweden, Norway and Denmark and from among other countries Austria and France (Christiansen 2011). However, broader international comparisons should also be welcomed.

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Table 1 – Current and historical forms of government business holdings in Finland

	National or local government responsible for all commitments of the enterprise			National or local government responsible for the commitments of the enterprise only within limits of holdings of equity		
	Partial separation from the government budget	Full separation from the government budget				
Form	I Older type national government public enterprise (Public Enterprise Act of 1931): operational finances outside the government budget	II Based on a special fund outside the government budget	III Newer type national government public enterprise (Public Enterprise and 2007 amendment to Local Government Act	IV Besides Company Act, special public interest legislation	V Only the Company Act is applied; this act concerns all companies whether held by public-sector or private-sector owners	
Variants	None	Many individually tailored variants	The national government Public Enterprise Act individually tailored for each individual enterprise	The public interest legislation individually tailored for each company	Non-profit variant: Company Act qualified by means of company by-laws to make companies equivalents to non-profit organizations	General variant: the national government or a local government only a holder of equity
Conditional rights	None	None	Borrowing rights may be awarded in acts on each individual enterprise	Many because of the individual tailoring	See the above cell	None
Examples	Numerous national government enterprises from 1931 to the 1980s	The Valmet metal industry enterprise, 1946–1952, local government enterprises	Numerous in the national government since the 1980s and in local governments since the 2000s	E.g., the alcohol company Alko Ltd and the broadcasting company Yleisradio Ltd	Many companies with local government holdings	Most companies with national government or local government holdings since 1931

Table 2 – Antecedents of national government company holdings until 1918

Name	First antecedent	History of institutional forms of the holdings	Company since	Ownership 2014, %
Posti Group plc	1811	Government agency 1811–1931, older type public enterprise 1931–1990, newer type public enterprise 1990–1994	1994	FG 100%
Destia plc	1811	Government roads agency 1811–2001, newer type public enterprise 2001–2007	2008	Bought by private-sector owners in 2014
State Forests	1858	Government agency 1858–1931, older type public enterprise 1931–1989, newer type public enterprise 1989–2015	2015	FG 100 %
Stora Enso plc	1860	Forest industry company with government majority holdings 1918–1998, part of the Swedish-Finnish Stora Enso plc since 1998	1860	FG 25 %, Swedish owners 27 %, SSI 10 %, pension funds 9%
VR Group plc	1862	Government railway agency 1862–1931, older type public enterprise 1931–1988, newer type public enterprise 1989–1994	1995	FG 100%
Nokia plc	1865	Important origins in the telecommunications company Televa Ltd held by the Finnish national government, acquired by Nokia plc in steps during 1974–1981	NA	No government holdings left in Nokia plc
Elisa plc	1882	A private sector telephone association 1882–1994; the Finnish government holdings have their origins in a 2008 acquisition from Icelandic shareholders	1994	FG 10%
Sampo Bank plc	1897	Government post savings bank and Post Bank enterprise 1887–1997, since 2001 the majority owners comprise private-sector financial industries	1997	FG 12%
Outo-kumpu plc	1910	Company partnership between the government and private-sector owners 1910–1921, government agency 1921–1932	1932	FG 22%, SSI 3%, pension funds 2%
Telia-Sonera plc	1918	Government agency 1918–1931, older type public enterprise 1931–1989, newer type of public enterprise 1990–1994, since 2002 part of the Swedish-Finnish telecommunications company Telia-Sonera	1994	FG 8%, Swedish government 37%

For the institutional forms of the holdings see Table 1. FG signifies the Finnish government, SSI, the Social Security Institution, and NA, not applicable or not available. All pension funds indicated are Finnish, statutory, and included in the public sector in national and European Union official statistics. Ownership figures indicate shares of votes in the shareholders' meeting. All fractions except for 50.1% have been rounded. The sources comprise the publication Ownership Steering 2015 and company websites.

Table 3 – Origins of national government company holdings from 1918 to World War Two

Name	First antecedent	History of institutional forms of the holdings	Company since	Ownership, %
Kemira plc	1920	First, chemical industries without a definite institutional form	1932	FG 17%, pension funds 10%
Veitsiluoto Ltd	1921	First, forest industries without a definite institutional form	1932	NA (part of Stora-Enso plc, Table 2)
Fortum plc	1921	First, electricity generation without a definite institutional form	1932	FG 51%, SSI 1%, pension funds 2%
Finnair Ltd	1923	First, airline with private-sector majority holdings, government majority holdings since 1946	1923	52%, pension funds 12%
Patria plc	1920s	First, government defense industry workshops without a definite institutional form, later, a number of older type public enterprises	1997	FG 100%
Yleisradio plc	1926	First, a private-sector broadcasting company, government majority holdings since 1934, public interest legislation since the beginning	1926	FG 100%
Alko Ltd	1932	Alcohol company, with public interest legislation	1932	FG 100%
Veikkaus Ltd	1940	Betting company, with public interest legislation	1940	FG 100%

See the explanations at the end of Table 2.

Table 4 – Origins of national government company holdings from World War Two to the 1980s

Company name	First antecedent	History of institutional forms of the holdings	Company since	Ownership, %
VTT	1942	Government technical research agency 1942–2015	2015	FG 100 %
Vapo Ltd	1945	Older type public enterprise 1945–1984	1984	FG 50.1%, local private-sector energy companies 49.9%
Valmet plc	1946	Metal industry enterprise based on a fund outside the government budget 1946–1952, independent company 1952–1999 and since 2013, part of another company 1999–2013	1952	FG 11%, pension funds 7%, a Swedish company 14%
Neste Oil plc	1947	Part of another company 1998–2005; independent company in 1947–1998 and since 2005	1947	FG 50.1%, SSI 1%, pension funds 4%
Rauta-ruukki plc	1960	Metal industry company; majority holdings acquired by a Swedish company in 2011	1960	FG 10% of the Swedish owner company SSAB plc

See the explanations at the end of Table 2.

Table 5 – Newer national government and local government company holdings

Name	First antecedent	History of institutional forms of the holdings	Company since	Ownership, %
Solidium Ltd	1991	Became a holding company of government minority portfolios in 2007	1991	FG 100%
Gasum Ltd	1994	Natural gas system operator and importer company	1994	FG 75%, Gazprom (Russia) 25%
Metso plc	1999	The government holdings derive from the Metso plc acquisition of Finnish government holdings in the metal industries	1999	FG 12%, pension funds 10%
Tieto plc	1999	Created in a merger of a company held by the government and a larger private-sector computing company	1999	FG 10%, pension funds 9%
Companies of local governments	NA	Companies held by local governments have increased in importance only since the 1990s	NA	NA

See the explanations at the end of Table 2.

Table 6 – Governance of public sector holdings in companies in Finland, 2015

	National government			Social Security Institution (SSI)	Local governments	Pension funds
Decision-makers	Parliament, the government headed by the Prime Minister, and individual ministers heading their ministries			Deputies elected by parliament	Elected council, board nominated by the council	Representatives of employers, employees, the national government and local governments
Subdivisions	Prime Minister's Office (PMO)		Line ministries	NA	NA	NA
Governance model	A Company holdings governed by the ownership steering unit at the PMO	B Solidium holding company minority holdings in companies	C Company holdings governed by line ministries	D SSI minority holdings in companies	E Local government sole, majority and minority holdings in companies	F Pension fund minority holdings in companies
Foremost companies in which there are public sector holdings	Finnair P Fortum P Neste P Patria Posti Gasum Vapo VR Solidium	Elisa P Kemira P Metso P Outokumpu P Sampo P SSAB P Stora Enso P Tieto P Telia Sonera P Valmet P	Alko (MSAH) Veikkaus (MEC) Yleisradio (MTC)	Stora Enso P Outokumpu P Fortum P Neste Oil P	NA	Stora Enso P Outokumpu P Kemira P Fortum P Finnair P Valmet P Neste Oil P Metso P Tieto P
Companies	29	12	22	NA	1,853	NA
Employees	67,600	92,200	10,370	NA	21,300	NA
Combined turnover euros	27.7 bn	35.2 bn	5.3 bn	NA	8.7 bn	NA
State Audit Office auditing	Yes	Indirectly, through Solidium	Yes	No	No	No
Statutory minimum of national government holdings	0 % Gasum, 100 % Posti, Solidium and VR, 50.1 % the others	None	100 % Alko, Veikkaus, and Yleisradio	None	None	None

P indicates public trading with company stocks, MSAH, Ministry of Social Affairs and Health, MEC, Ministry of

Education and Culture, MTC, Ministry of Transport and Communications, and NA not available or not applicable. The combined share of the employees indicated in this table is 14 per cent of all Finnish employment in companies and the combined share of the turnover indicated in the table is 20 per cent of the total turnover of all Finnish companies. For more on individual companies see Tables 2–5. The source of the table is the publication *Ownership Steering 2015*.